Price Ceilings and Wartime Control Over the American Economy

By Charles A. R. Wardwell and Gerald J. Matchett

IT has happened here—general price control is on the books. Price ceilings mark a sweeping extension of governmental wartime management over the Nation's economy. They will require, perhaps, the greatest administrative effort in our economic annals. They must be expected to raise numerous and grave problems—not the least of which will be to prevent some further rise in the price level, for important prices are still exempted from control. Finally, price control, to achieve its objective, must be supported by effective fiscal measures and rationing.

During World War I, a previous generation of Federal Administrators grappled with the inflation problem and invoked price controls. These, however, were of the selective type. Only prices of materials basic to the Nation's food, fuel, and munitions supply were singled out for restraint. In all, 573 commodities were brought under Government control by various agencies at some time during the war, most of them at the manufacturers' or wholesalers' level. These controls began during the summer of 1917 and lasted until December 31, 1918. They were effective, as long as they were operative, in promoting reasonable stability among the controlled prices. The uncontrolled goods, of course, were free to rise. They did so, rising nearly one-fourth during the year and a half of price control, and accounting for the entire price level rise in this period. After controls were removed, prices generally resumed their uneven rise until the postwar inflation peak in 1920. Of the total wartime inflation, roughly six-tenths occurred before price controls were instituted, about one-tenth while they were in effect, and the other three-tenths after controls were removed.[1]

Price Control Task of Tremendous Magnitude.

The General Maximum Price Regulation is unique, therefore, not in its application of price controls to the American economy but rather for its sweeping character. Not just 573 prices as in World War I but, with notable exceptions, all goods and many services; not just at wholesale but also at retail. If the number of retail establishments now in business is substantially the same as at the time of the 1939 Census, there are approximately 1,800,000. For most of the numerous individual articles offered at retail in each of these establishments there is a price ceiling. The ceilings on the same article will differ from one establishment to the others. These retailers will buy from roughly 200,000 wholesalers who in turn will buy from approximately 180,000 manufacturing establishments. Each wholesaler has a ceiling price on each article he handles and likewise each manufacturer has a ceiling price on each article he makes and sells. Thus there are literally tens of millions of ceiling prices and profit margins and 2 million business establishments with various problems growing out of price relations—vital problems which may determine whether each one of them stays in business or not—now firmly ensconced on the doorstep of the Office of Price Administration.

Price Control Only One Phase Of Economic Mobilization

The significant features of the current price level situation will escape any observer who fails to realize that they are merely one part of the whole problem of economic mobilization for war. Hence before discussing the problems of price control as such, we shall gain perspective if we first orientate ourselves with reference to some of the fundamentals of the program for total economic mobilization.

Total war—for survival—means that a maximum proportion of all the economic resources of the Nation must be brought to bear against our enemies in both defense and offense. This means the arraying for war purposes of a maximum proportion of our natural resources, of our manpower, and of our capital equipment. No household can escape participation in one way or another in the common effort.

The overshadowing economic problem is production: a maximum of war goods for the Armed Forces and the remainder—a residual as large as practicable—for civilians. Vast war expenditures by the Government are necessary. These create several closely interrelated subsidiary problems: that of raising revenues, that of averting inflation as the floodtide of consumer purchasing power is confronted by a diminishing supply of consumer goods, that of rationing scarce goods equitably, and others. But the supply problem always comes first—ample supplies for the fighting forces and as ample as can be for civilians. To accomplish this, the Government is bound to take any necessary measures to ensure that adequate quantities of materials, of labor, and of management flow into the war industries, largely out of civilian lines. Whether this conversion of the economy is achieved by the

[1] Readers interested in further study of price control in World War I may refer to "Government Control Over Prices," by Paul Willard Garrett, assisted by Isador Lubin and Stella Stewart, War Industries Board Bulletin No. 3, 1920.

hope of profit, by patriotism, or by some sort of compulsion, it must be done.

Prior to the General Maximum Price Regulation, the Government built up the war industries chiefly by ordering cessation or limitation of civilian goods output, and by priorities and the allocation of materials and equipment. Other means of fostering these industries were, increasingly, allocation of transportation, of fuel and of power. Price control, from this viewpoint, and quite in addition to its power to check inflation, is also another instrument for the Government to use in mastering the basic problem of wartime supply and mobilization. It enables the Government to hitch to economic mobilization the basic functions of the price mechanism as it operated under free enterprise.

Functions of Prices.

One vital function the price system helped to perform was to guide the flow of capital, materials, labor, and management into alternative fields of endeavor. Price changes, as these influenced profits, were perhaps the chief factor determining the relative quantities in which various goods and services were produced. High or rising prices were an invitation to productive factors to move into a given field to increase output there. Low or falling prices tended to divert productive resources and thus discourage production. In those fields not subject to superior controls, prices will still function in this manner.

For some months, however, the flow of materials and equipment has been guided to an increasing extent by the War Production Board. From now on the flow of labor will be increasingly subject to the War Manpower Commission. Prices and profit margins will still guide the flow of productive resources not otherwise guided—but the prices set will be subject to the jurisdiction of the Office of Price Administration. Accordingly this agency can adjust profit margins favorably in cases where it wishes to encourage output or distribution, and squeeze the margins in cases where it is necessary in the national interest to discourage the output and sale of an article.

Another vital function of prices was to guide consumption. Low prices were an invitation to purchase more, and high prices, less, of any given article. Hence both the choice of goods and the amounts purchased by individual consumers, were determined by prices on the basis of ability to pay. Prices will still influence consumer choices, but they will increasingly be those prices set by the Price Administrator rather than by market decisions. And the quantities consumed per person, at least in the case of scarce articles, will be determined by OPA ration regulations as well as by ability to pay.

Hence in one way or another, various Government agencies have either assumed the traditional functions of the price system or will supplant them by more direct controls over production and consumption. The same development has already taken place in Great Britain, Russia, Germany, and other warring nations. Our economy cannot otherwise be effectively mobilized for total war.

Purposes of Price Control.

The Emergency Price Control Act of 1942, whence come most of the Government's powers over prices, set forth nine broad objectives as the purpose of the Act. Prevention of inflation is one major goal specified. Another is the assuring of adequate production. A third is to prevent dissipation of defense appropriations by excessive prices. Price control broadly viewed, therefore, can be considered as one of the most important measures—but only one of them—available to the Government for effecting economic mobilization for war and for distributing equitably over all groups in the community the costs and sacrifices necessary to the Nation's war effort.

It is fully to be expected, therefore, that the Government will exercise its control over prices to prevent inflation as completely as possible, directly or indirectly to encourage certain types of production and discourage others, and also to encourage certain types of consumption while discouraging other types.

Most of the concern about inflation seems to have focused on the cost of living. Our estimates (admittedly rough) indicate that in the year ending June 30, 1943, the Federal Government alone will purchase about as many goods and services as will be available to the entire body of civilian consumers. Within a short time, therefore, the Office of Price Administration expects to bring an important share of the Government's purchases under formal control.

Companion Measures Will Follow to Supplement Price Control.

The exact nature of all of the companion measures that must operate along with price regulation in the joint mobilization efforts has not been determined. What these forthcoming measures must do, however, is abundantly clear. First, they must mop up most of the consumer purchasing power over and above the amounts needed to buy the available supplies of consumer goods and services at their ceiling prices or less. This will be accomplished by higher taxes collected in one way or another from consumers and also by much larger purhcases of war bonds by consumers out of their current incomes. The more adequate these fiscal measures are to effect this purpose, the less will be the pressure against the price ceilings and the simpler will be the enforcement problem of the Office of Price Administration.

Secondly, other measures will be needed to stabilize the prices so far exempted from control. Some of these exemptions threaten cost-of-living stabilization, such as prices of personal services and food consumed in eating places. Others threaten the cost of doing business, such as wages and salaries. Whatever may be the measures designed to prevent the further rise of these and other exempted items, it is clear that they must rest upon fundamental criteria which are themselves solidly rooted in broad social policy. Involved, of course, is the whole question of the distribution of the national income and the standards of living of the various groups in the community in wartime.

Another companion measure needed to supplement price control in wartime management of the standard of living is the rationing of all scarce goods and services. This is inevitable as obviously it would be contrary to the national welfare to permit the first few people in line, on the first-come first-served basis, to buy up most of the available supply and leave only remnants for the others. There is one special aspect of rationing important enough to mention in passing. This is the need for rationing of inventories of scarce goods among distributors. Unless this is done, grave problems of maldistribution of merchandise among mercantile outlets and between different localities may arise to disrupt the equitable flow of scarce goods to consumers.[2]

Basic Problems of Price Control

The adoption of universal price ceilings raises many difficult problems, several of which are considered below. The results of price ceilings will be direct and indirect, foreseen and unforeseen. One thing, however, is clear: If price control is to develop in an orderly manner, basic criteria must be established as benchmarks for determining solutions to various types of problems as they arise.

Problem of Adjusting Compressed Profit Margins.

One of the important problems of price control centers around the effect of ceiling prices upon the distributive trades. The profit position of a wholesaler or retailer depends upon two factors: namely, the volume of business and the relationship between the selling price and the cost price of each article handled.

With the production of many consumer commodities either stopped completely or drastically curtailed, many concerns will suffer a decline in the volume of business. The dollar value of goods likely to be available to consumers during the fiscal year 1943 is roughly estimated at only about 85 percent of that so available in the calendar year 1941. This declining volume of business will be an increasingly important element acting to compress profit margins. While it will affect some lines of business more drastically than others, few will escape entirely.

The distributor cannot look to prices moving freely upward to maintain his profit position, for the price structure has been frozen at the March level for a majority of commodities in which he trades. While prices of manufacturers, wholesalers, and retailers have been rising at approximately a similar rate since February 1941, the rise has been uneven. Many retailers' prices have lagged behind wholesalers' and manufacturers' prices. Consequently, many distributors will be subjected to a double squeeze—a volume squeeze and a price squeeze. In the long run, the volume squeeze will probably be more important than the price squeeze for certain lines.

Price Squeeze an Individual Problem.

An analysis of the retail price squeeze would necessitate a comparison of the price and cost of every commodity sold by every retailer. The average retail price lag has little meaning, and can certainly not be used as a guide in making price adjustments. Different groups of retailers are affected differently because wholesale price movements have been uneven as between commodities. (See fig. 14.) Between March 1941 and March 1942, for example, wholesale prices of dairy products and meats increased 17 and 31 percent, respectively. Prices of housefurnishing goods increased 15 percent, shoes 16 percent, woolen goods 17 percent, and cotton goods 39 percent.

Table 1.—Annual Stock Turn-over by Type of Retail Business, 1939

[Number of turns per year]

Type of business	Average turnover for profitable concerns	Range of usual profitable turn-over experience	
		Lower limit	Upper limit
Meat markets	53.9	32.3	79.4
Dairy and poultry products stores	29.6	[a].3	353.7
Grocery and meat stores	13.8	9.4	18.5
Bakery shops	12.8	9.4	21.7
Confectionery stores	11.0	6.2	16.3
Grocery stores (without meat)	10.2	7.8	14.0
Farmers' supply stores	8.7	5.7	14.9
Coal and other fuel dealers	8.3	5.6	12.8
Cigar stores and stands	7.8	4.5	12.9
Alcoholic beverages	6.5	4.2	9.4
Country general stores	4.0	2.6	6.4
Women's ready-to-wear shops	3.8	2.6	5.6
Florists and nurseries	3.7	1.7	8.9
Lingerie, hosiery, millinery, and accessory stores	3.5	2.1	7.0
Lumber and building material dealers	3.3	2.1	4.9
Drug stores	3.2	2.2	4.5
Farm implement dealers	3.0	2.1	4.9
Housefurnishings stores	2.9	2.2	5.1
Stationery stores	2.9	1.8	4.9
Furniture stores	2.8	2.0	4.1
Floor coverings stores	2.7	.1	10.5
Paint, wall paper, and glass concerns	2.7	2.0	3.5
Musical instrument stores	2.2	.5	12.0
Fur shops	2.1	.5	12.3
Dry goods and general merchandise stores	2.0	1.4	2.8
Hardware stores	2.0	1.6	2.7
Family clothing stores	1.9	1.4	2.7
Custom tailors	1.9	.7	7.1
Men's clothing shops	1.9	1.3	2.5
Shoe stores	1.8	1.4	2.4
Jewelry stores	1.2	.8	1.8

[a] This figure seems inexplicably low.

Source: Dun and Bradstreet, Inc., Standard Ratios for Retailing, 1940.

Even retailers engaged in similar business are affected differently because pricing policies were not uniform. If a retailer determined his mark-up by replacement costs, he is subject to no price squeeze, for his March selling price in this case is determined directly by the prices that he had to pay in March. Many retailers

[2] For further discussion of this point, see the article by Frederic C. Murphy and Louis J. Paradiso, p. 6 of this issue of the *Survey of Current Business*.

use as the base for their mark-up the average cost of their inventory. Where the rate of inventory turnover is very rapid, the average inventory cost is close to the replacement cost and the price squeeze is negligible. The retailer whose business is on a month-to-month basis and who had acumulated no large stock of goods will suffer little price squeeze from the General Regulation. The retailer, on the other hand, who participated in the general movement of forward buying and who had accumulated large stocks of goods will probably be more severely affected.

The rate of inventory turnover gives some clue as to the commodities and retailers most subject to the price squeeze. According to the Dun and Bradstreet 1939 Survey of Fifty Types of Retail Trades, inventory turnover differed widely not only from commodity to commodity, but also from store to store. Table 1 indicates this for selected types of retail business. In general, stock turns were most frequent in the case of food stores. Meat markets, for instance, experienced a turnover approximately once a week. At the other extreme, jewelry stores, shoe stores, and men's clothing shops among others, turned their stock little more than once a year. In most lines experience from store to store was far from uniform. While a high rate of turnover means that the price squeeze is insignificant, a slow turnover, of course, does not necessarily imply the converse because the pricing policy and the spread between wholesale and retail prices may still have afforded an adequate margin.

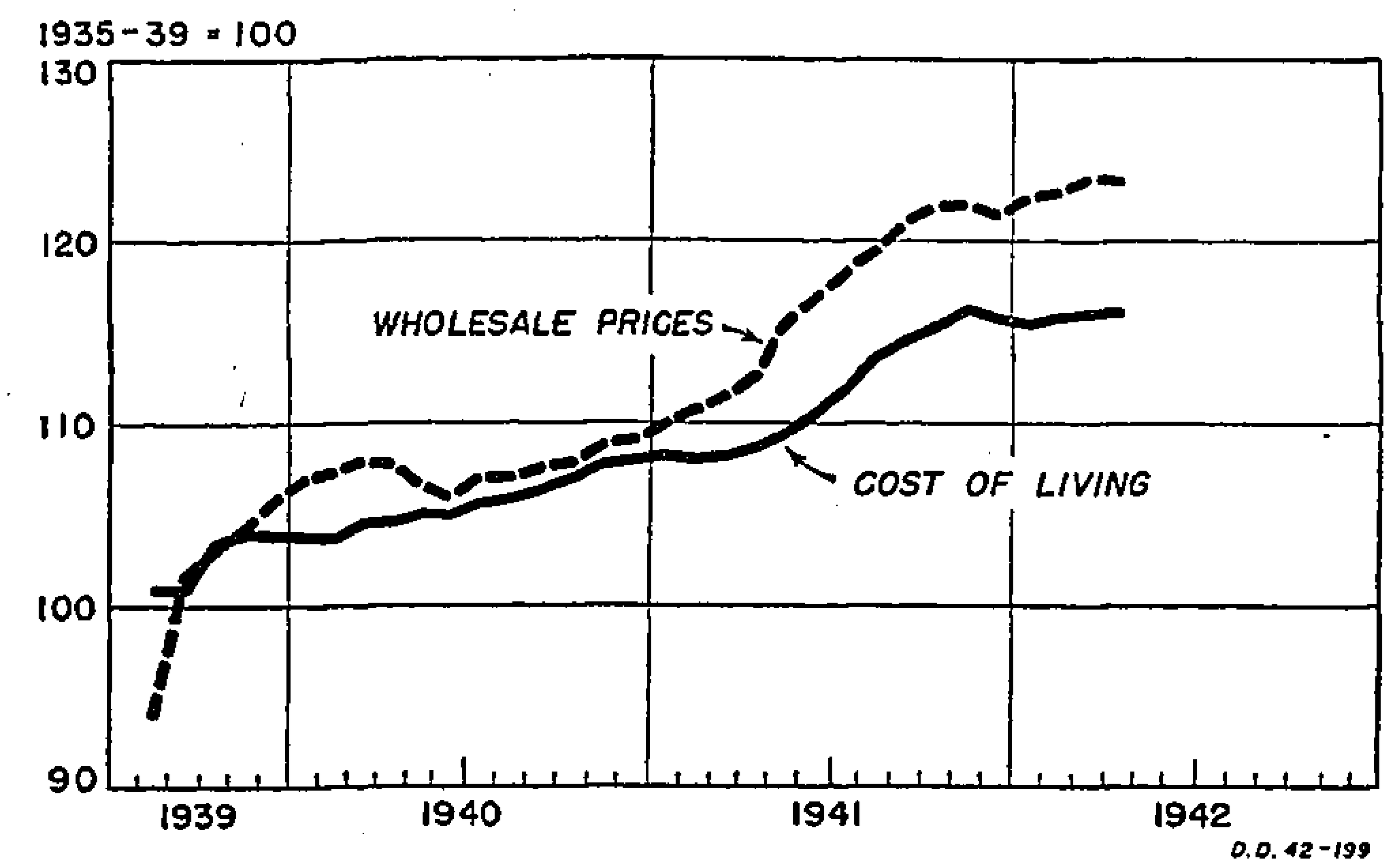
Canadian Experience.

Because of the similarity of the Canadian price control system to our own, a brief review of Canadian experience will demonstrate how some of these problems of margin adjustment may be met. The base period in the Canadian regulation is September 15 to October 11, 1941. Beginning on December 1 of last year no retailer was to charge a price higher than he charged in the base period.

Ceilings were not imposed upon wholesale prices. Where retailers could not sell at the base period price, wholesalers' and manufacturers' prices were rolled backward. In making adjustments, the authorities have calculated the total available margin and divided it up among processors and distributors on some equitable basis. The Canadian price authorities have had no compunction about changing prices either upward or downward save at the retail level. Only under special circumstances were retail prices of a concern increased. If a merchant, for instance, was selling some commodity as a loss leader during the base period, he was allowed to bring his selling price in line with that of his competitor. Some commodities have been allowed to disappear from the market.

The results of 5 months of Canadian price control are revealed in figures 13 and 14. Between August

Figure 11.—Indexes of Cost of Living and Wholesale Prices in Canada.



Source: All data from the Canadian Department of Trade and Commerce. Index of Wholesale Prices was recomputed to the 1935-39 base by the U. S. Department of Commerce.

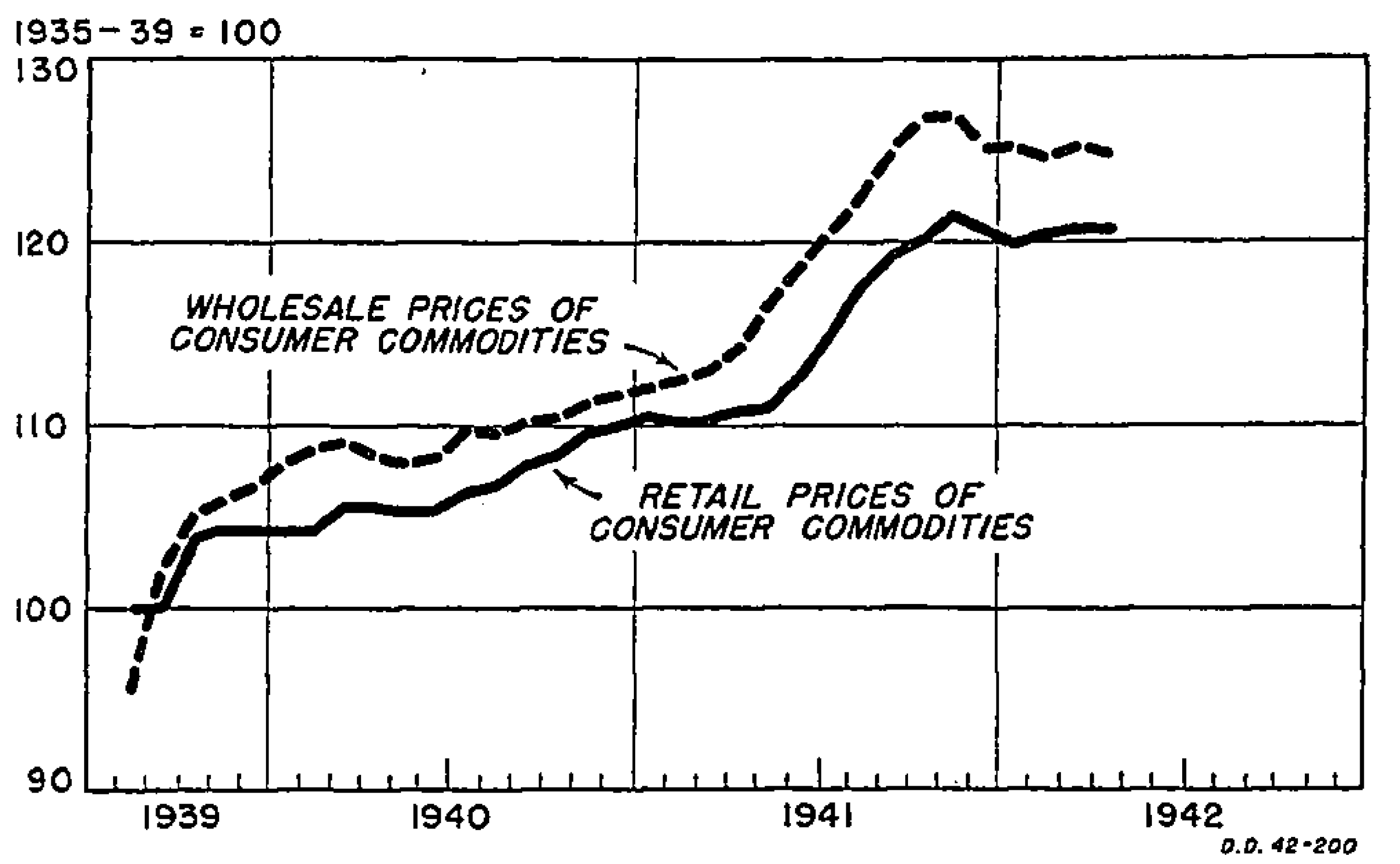
1939 and November 1941 living costs advanced 15 percent and wholesale prices 30 percent—increases comparable to those in the United States up to the issuance of the General Regulation. Since December 1, 1941, cost-of-living price indexes of the Department of Trade and Commerce have held remarkably stable through April varying between 115.4 and 115.9 (1935–39=100). Wholesale prices have increased about 1 percent during this period. Wholesale prices of consumer goods have declined slightly, while retail prices of these commodities remain at the December level. Canadian control is broader than our own. Agricultural commodities in general are not exempted and wages are tied to the cost of living.

Criteria for Margin Adjustments.

The value of consumer goods at retail in the United States amounted to about $43.5 billion in 1939. The cost of distributing these goods was allocated as follows: Wholesale costs $2.9 billion, and retail costs $12.1 billion. Thus the wholesale-retail distributive margin (omitting transport costs) totaled $15 billion, or nearly 35 percent of the retail value. It is this 35 percent (which remains fairly constant) that the OPA has available, on the average, to divide among those distributing consumer goods.

There are two criteria upon which adjustment of profit margins may be based. The authorities may consider either the margin on each commodity separately, or they may consider the total profit position of a firm. These two criteria, both of which have been used by the Canadian authorities, lead to different results. If the authorities consider the total profit position of a firm and find it to be favorable, adjustment may be denied in the case of a particular commodity upon which a loss is being sustained. The seller then must decide whether or not to continue the production or sale of the commodity in question. In short, this method tends strongly to result in the disappearance of many commodities from the market altogether. It is clear, of course, if the commodities concerned are vital war materials or essential civilian commodities this criterion could not be used and some form of relief would have to be granted.

Figure 12.—Indexes of Wholesale and Retail Prices of Consumer Commodities in Canada



Source: All data from the Canadian Department of Trade and Commerce. Index of Wholesale Prices of Consumer Commodities was recomputed to the 1935-39 base by the U. S. Department of Commerce.

Business, however, cannot rely entirely upon the Price Administrator for relief as profits diminish. Energetic action must be taken to reduce costs to a minimum. Economies may be effected by using a smaller labor force, by cutting down on deliveries and other free services, by a reduction of advertising, by greater standardization of commodities, and by concentrating on a smaller selection of stock and faster turnover.

Subsidies.

Finally, some relief—primarily to producers—may be granted through payment of subsidies. The Office of Price Administration has had some experience with subsidies which encourage production without upsetting established ceiling prices. Last January, differential prices were established for lead, copper, and zinc. The Metals Reserve Company was directed to purchase all lead, copper, and zinc output beyond certain quotas at prices respectively 42, 41, and 33 percent above their basic ceiling prices. Purchasers continue to buy at the ceiling price, the Government paying the premium price as a subsidy to the producer. The merits of this type of subsidy are that the ceiling is not punctured, the bulk of the output is obtained at a price no higher than the ceiling price, and the supply subject to higher costs is encouraged.

In Canada, the Prices Board adopted subsidies for the maintenance of ceiling prices in the case of unabsorbable differences in the domestic price system, and also to compensate for differences between the home and foreign markets. The Commodity Prices Stabilization Corporation was created and provided with an advance of 10 million dollars from Government funds. The cost of the subsidies amounted to more than 2 million dollars for the first 5 months. It is expected that payments will eventually exceed this rate, although the extension of control in the United States has made easier the Canadian efforts. Nearly one-half of the rise in the costs of imported leather is being met by a subsidy. Milk producers are receiving payments to encourage the output of dairy products. Table 2 gives a list of subsidy payments granted through April 21, 1942. It is significant that while the majority of payments in number have been made for import commodities, the bulk of the payments have gone to support milk production and the production of shoes.

Table 2.—Price Stabilization Subsidies in Canada [1]

Commodity	Subsidy payment
Domestic commodities	$1,974,762
Milk	1,387,630
Footwear	584,355
Leather garments	2,777
Imported commodities	154,219
All commodities	2,128,981

[1] Subsidies, up to and including Apr. 21, 1942, paid by the Commodity Prices Stabilization Corporation, Ltd.

Source: House of Commons of Canada, Debates for Apr. 23, 1942.

In Great Britain an elaborate subsidy system has been developed for keeping in check cost-of-living prices. The Ministry of Labour's cost-of-living index was less than 1 percent higher in April 1942 than in April 1941. Large subsidies amounting to £125 million in 1941 were chiefly responsible for holding these prices down in the face of advancing wholesale prices.

Basic criteria will be needed to guide the granting of subsidies. In order to keep payments to a minimum, the Administrator must first determine which commodities are essential and which may be foregone for the duration. Subsidies will be warranted only to maintain or increase the supply or essentials where production is being discouraged by the ceiling and in general they will be granted at the manufacturers' level.

Guarding Against Quality Deterioration.

There is no simple answer to the problem of quality deterioration. It is complicated by the fact that military requirements for scarce materials may often necessitate the substitution of other materials in the manufacture of civilian commodities. If the substitute materials used are cheaper, prices should be reduced accordingly. There is risk, however, that some manufacturers, without such cause, may deliberately reduce the quality of products and sell the less useful goods at regular prices as a means of evading the Price Regulation. It is this type of quality deterioration that must be prevented, and to do so will call for constant vigilance on the part of the Price Administrator's technical experts.

New Commodities and Trading Up.

The problem of establishing a price ceiling for new commodities is one which will call for increasing attention, and it is not one that can be easily solved. At the manufacturers' level, the cost of production will be an important element to consider. For wholesalers and retailers, the Canadian policy may be followed of allowing a mark-up comparable to that for commodities made of similar materials. As substitutes are found to replace those banned because they require critical materials many new commodities are likely to appear. On the other hand, slight changes in the specifications of a commodity do not really constitute the introduction of a new commodity. Where this is done with the intent of evading the ceiling, the Administrator can discourage it by refusing to grant a higher ceiling price.

Trading up may also become prevalent. This would involve the discontinuance of low-priced lines in favor of higher-priced lines affording larger profit margins. One solution would be to grant a subsidy for the production of the low-priced commodity if it is desirable that it remain on the market. Trading up would defeat the purpose of the price ceiling by raising the cost of living of those who ordinarily buy the low-priced commodity. In addition, the manufacture of more expensive goods often uses more materials and labor. These resources should, where needed, flow into war industries instead.

Enforcement.

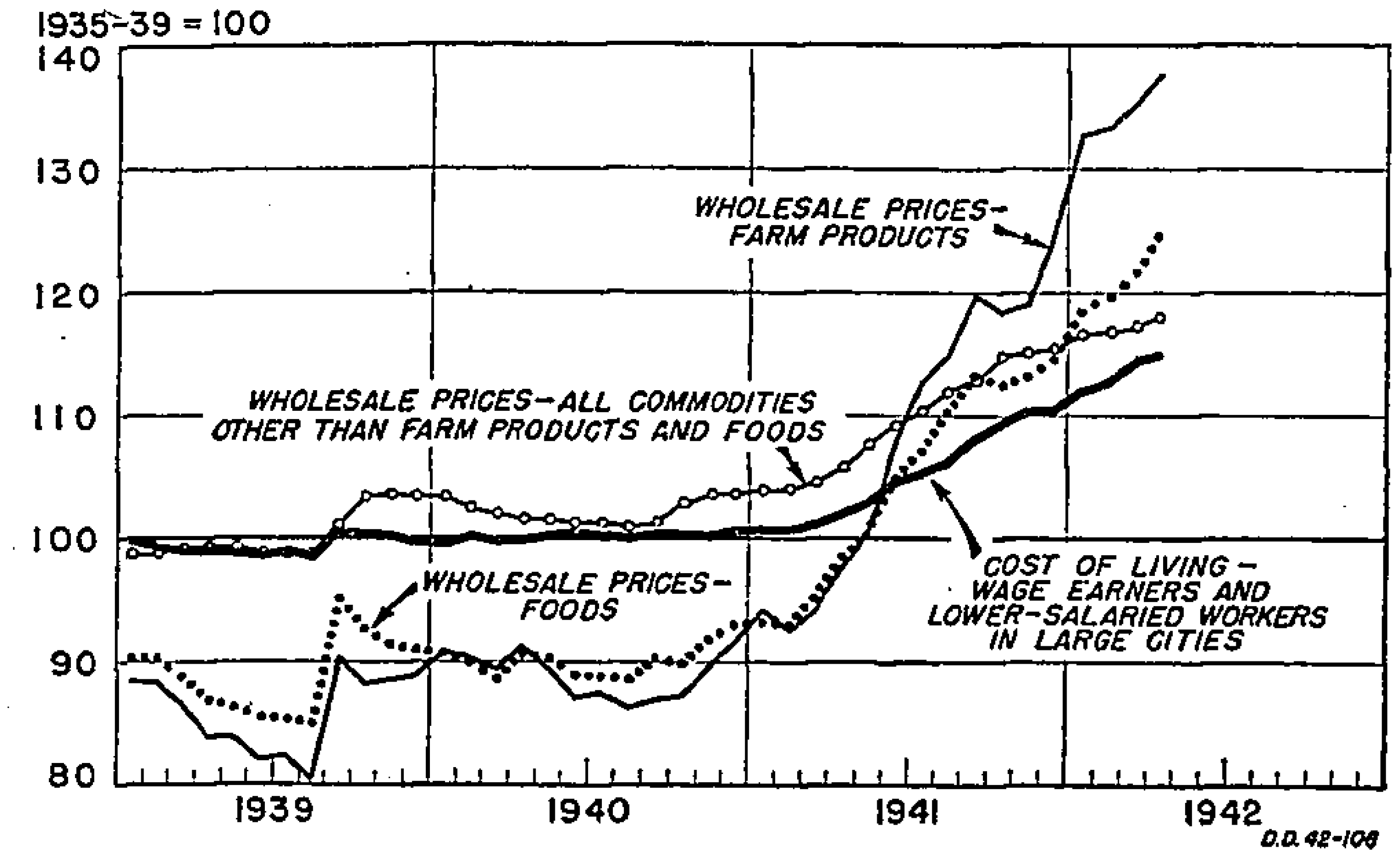
Enforcement of price ceilings in all transactions for all covered commodities obviously poses a tremendous administrative problem. Unless complete cooperation of both buyers and sellers is won, this is apt to provide a critical test of the entire control project. As long as shortages are not serious it will be to the advantage of the consumer to cooperate with the authorities in order to keep down his cost of living. The real test will come when and if shortages develop.

As rationing becomes extensive, enforcement of the ration will be added to enforcement of price. In every other country where price and ration controls are in force, black markets have developed as some people persisted in getting scarce goods even if illegally. Hence our problem will be to keep black markets at a minimum. Enforcement here will be eased if adequate measures are taken to absorb surplus consumer purchasing power.

Influence of Exempted Prices and Costs.

Two of the most important types of exemptions from price control resulted from provisions of the Emergency Price Control Act itself. First, many agricultural commodity prices were left uncontrolled because they had not yet reached the minimum levels at which ceilings may be imposed. Nevertheless, many processed agricultural items were brought under the Regulation because authorities believed March prices to be sufficiently high to allow their prices at the farm to attain the stipulated levels.

Figure 13.—Indexes of Wholesale Prices and Cost of Living in the United States



Source: All data from the U. S. Department of Labor. Index of Wholesale Prices was recomputed to the 1935-39 base by the U. S. Department of Commerce.

Second, the act through its definition of a commodity, specifically excluded, among other things, wage rates, utility rates, security prices, real estate, periodicals, and personal and professional services. In addition, the Regulation excluded commodities for which no organized market exists, such as fresh fruit and vegetables, and certain basic raw materials already covered by ceilings. Nor was any control placed over the prices charged by restaurants and other eating establishments. The most important exceptions, however, from the point of view of influence on other prices, are agricultural prices and wage rates.

In view of the swift rise which has occurred in the prices of agricultural products, under the impact of wartime demands and in conjunction with the farm programs of the Government, the exemption of many agricultural commodities from the March ceiling raises a rather important question as to the stabilization of the cost of living. From August 1939 to March 1942, the Bureau of Labor Statistics' indexes of the wholesale prices of farm products and foods increased by 69 and 43 percent, respectively, compared with the 30-percent increase for the combined index. (See figs. 13 and 14.)

The Emergency Price Control Act provided four alternatives for determining how far agricultural prices are to be allowed to rise before a ceiling may be imposed. For the majority of farm products no ceiling may be imposed until prices reach 110 percent of parity.[1] Since the beginning of the year, agricultural

[1] No maximum price shall be established or maintained for any agricultural commodity below the highest of any of the following prices, as determined and published by the Secretary of Agriculture: (1) 110 per centum of the parity price for such commodity adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials, or, in case a comparable price has been determined for such commodity under subsection (b), 110 per centum of such comparable price, adjusted in the same manner, in lieu of 110 per centum of the parity price so adjusted; (2) the market price prevailing for such commodity on October 1, 1941; (3) the market price prevailing for such commodity on December 15, 1941; or (4) the average price for such commodity during the period July 1, 1919, to June 30, 1929. Emergency Price Control Act of 1942, Sec. 3 (a).

prices have been fluctuating around parity. In March they were 97 percent of parity, but by mid-May the parity level had again been reached. A comparison of May prices and minimum ceiling prices for a number of products is given in table 3.

Table 3.—Minimum Price Ceilings for Selected Agricultural Commodities

Commodity and unit	Actual price May 15, 1942	Parity price May 15, 1942	Minimum price ceiling alternatives [1]: 110 percent of parity price May 15, 1942	Minimum price ceiling alternatives [1]: Average price July 1919–June 1929	Minimum price ceiling alternatives [1]: Actual price Dec. 15, 1941	Percent by which actual May price must rise or fall to reach minimum ceiling price
Rye ct. per bu.	59.4	109.4	*120.3*	94.7	57.8	+103
Hay dol. per ton	10.82	18.04	*19.84*	13.53	9.43	+83
Barley ct. per bu.	62.0	94.1	*103.6*	69.3	56.1	+67
Turkeys, live ct. per lb.	19.1	21.9	24.1	*28.8*	20.9	+51
Wheat ct. per bu.	99.8	134.4	*147.8*	132.5	102.2	+48
Buckwheat do.	83.1	111.0	*122.1*	105.6	64.9	+47
Sweetpotatoes do.	105.6	133.5	*146.8*	134.4	86.6	+39
Beans dol. per 100 lb.	4.38	5.12	5.63	*5.77*	4.93	+32
Corn ct. per bu.	81.4	97.6	*107.4*	88.9	66.9	+32
Oats do.	51.6	60.6	*66.7*	47.4	45.2	+29
Eggs [2] ct. per doz.	26.5	26.8	29.5	33.2	*34.1*	+29
Peanuts ct. per lb.	6.30	7.30	*8.03*	5.83	4.79	+27
Flaxseed dol. per bu.	2.43	2.57	*2.83*	2.34	1.78	+16
Chickens, live ct. per lb.	18.4	17.3	19.0	*21.1*	15.8	+15
Cottonseed [3] dol. per ton.	43.99	34.28	37.71	36.17	[4] 44.65	+14
Butterfat [2] ct. per lb.	38.6	37.9	41.7	*44.0*	36.0	+14
Cotton [3] do.	19.17	18.85	20.74	*21.47*	16.23	+12
Potatoes ct. per bu.	114.8	108.1	118.9	*124.1*	82.7	+8
Apples dol. per bu.	1.56	1.46	*1.61*	1.46	1.09	+3
Lambs [3] dol. per 100 lb.	11.62	8.94	9.83	*11.12*	10.13	−4
Wool ct. per lb.	40.2	27.8	30.6	34.1	*37.1*	−8
Hogs [3] dol. per 100 lb.	13.28	11.05	*12.16*	9.77	10.32	−8
Veal calves [3] do.	12.45	10.26	*11.29*	9.56	11.18	−9
Beef cattle [3] do.	10.65	8.24	9.06	7.18	*9.34*	−12
Rice ct. per bu.	177.5	123.6	136.0	126.0	*143.9*	−19

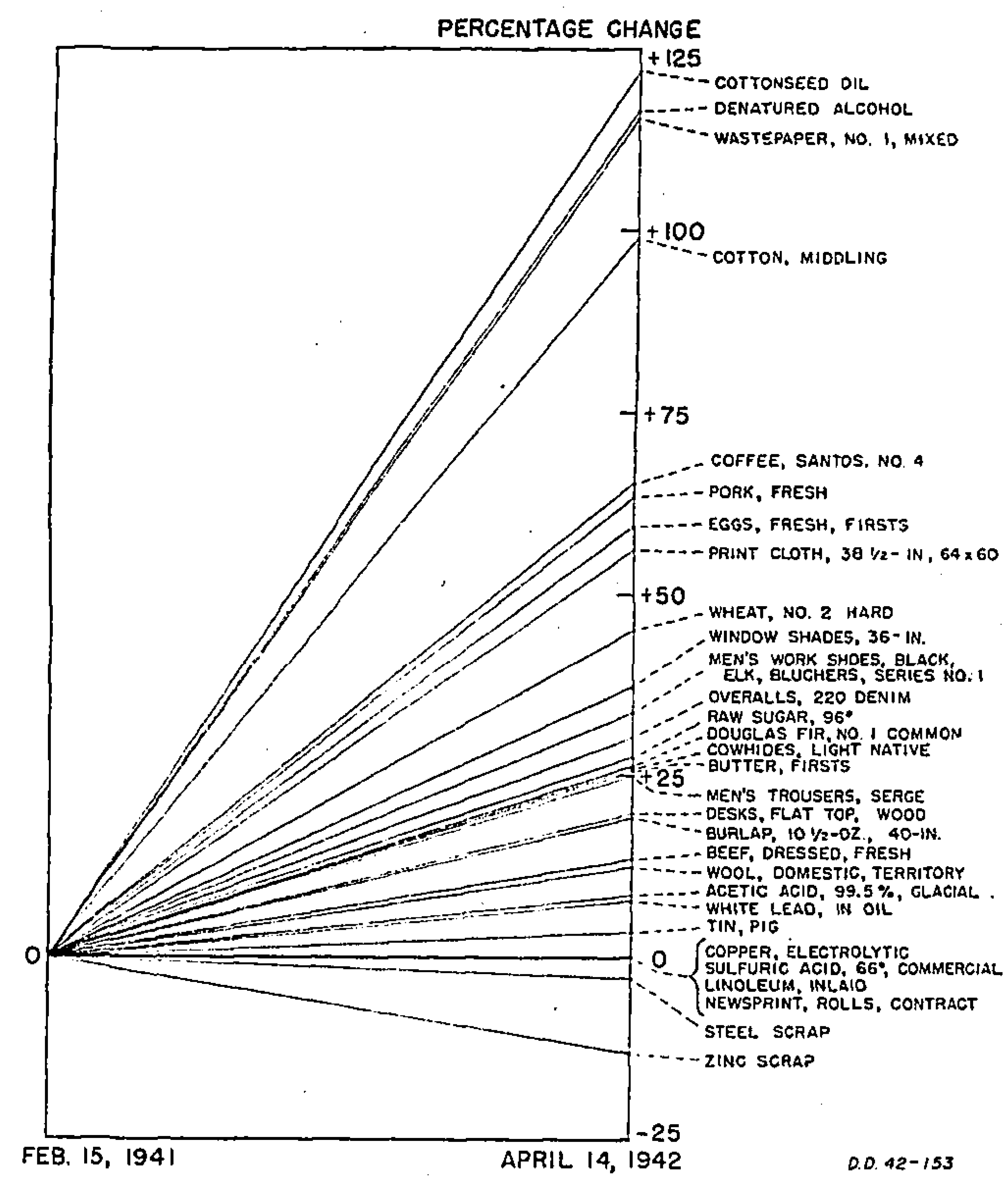
[1] Minimum price ceiling in italics. Oct. 1, 1941, price ceiling alternative omitted.
[2] Seasonally adjusted.
[3] Latest figures, revising table published in the Congressional Record, May 26, 1942, p. 4722.
[4] Minimum ceiling is the approximated price on Oct. 1, 1941, which was $50.36 per ton.

Source: U. S. Department of Agriculture and Office of Price Administration.

The Department of Agriculture estimates that about 75 percent of the commodities contained in the index used to compute parity for agricultural products are covered by the General Regulation. Parity undoubtedly will not advance as rapidly as in the past because only 25 percent of the commodities bought by farmers are still free of price control. There evidently can be some further increase, however, and in addition agricultural prices are still free to rise 10 percent, on the average, beyond such parity levels.

According to the Bureau of Labor Statistics, about one-fourth by value, of the commodities contained in its wholesale price index is exempt from price control. In its retail cost-of-living index, roughly 70 percent of the goods and services are subject to the Regulation, and many of the exempted items are under other controls. It appears quite probable, nevertheless, that both the wholesale and retail price indexes will continue to register some advances as the result of continued price increases in uncontrolled items. These latter may possibly rise even faster than in the past by reason of sellers endeavoring to expand their margins on such items as an offset to smaller returns from commodities subject to ceilings. The Price Control Act itself, moreover, forbids ceiling prices upon processed agricultural commodities if the effect is to prevent farm products from attaining their minimum ceilings. For this reason, the March ceiling prices on canned citrus fruits and juices were removed early this month, and other food ceilings may have to be eliminated or revised upward.

Figure 14.—Percentage Change in Wholesale Prices of Selected Commodities in the United States



Source: U. S. Department of Labor.

The exemption of wage rates means that for most businesses the largest single element of cost is free from formal control. The only notable exception to this is in the instance of wage-rate disputes that come before the National War Labor Board. Under the most favorable circumstances, wage advances may perhaps be retarded without formal controls. For labor is thoroughly aware of its responsibilities under the President's April program. Unless labor costs are kept to reasonable levels, however, the Office of Price Administration will be faced with a decisive test of its entire program. For rising labor costs, despite the economies of production and distribution that may be effected, must sooner or later lead either to the revision of price ceilings, to deterioration of quality, or to the reduction of output and distribution in many civilian goods lines. This problem evidently must be squarely met if Government management of the wartime standard of living is to be successful.

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Summary of Probable Effects of Price Ceilings

Price control and the reduction of the unit volume of consumer goods will bring profound changes in the distributive trades. The variety of goods offered for sale will diminish. Some commodities will disappear from the market completely. Fewer services will be offered in connection with the sale of commodities. Whereas formerly distributors competed with one another for consumer trade, competition may now be just as intense in the struggle to obtain merchandise. The consumer will be less well served.

For the duration, manufacturers and distributors of consumers' goods will be a less significant element in the total economy. Failures and retirements among them will increase. Those manufacturers who can shift to war goods will suffer very little save during the immediate adjustment period. While cases of individual hardship are bound to be numerous, portions of the labor and resources released will be available for use in war industries. Thus part of the losses suffered by consumer goods manufacturers, distributors, and their employees will be a gain to the war economy.

While many of the major cost-of-living prices may be stabilized, the standard of living is bound to fall. Civilian production will be severely curtailed. Accumulated inventories will be drawn down. In addition, there is likely to be considerable deterioration in the quality of commodities and some further advance in commodity prices.

In its fundamental policy-making decisions, the OPA will in fact be faced with three principal alternatives. The authorities may decide that quality deterioration is preferable to allowing an advance in price. Or they may further decide that price ceilings can be held by removing or diminishing the upward pressure of rising costs. To accomplish this end, they may refuse to grant relief to marginal concerns who will then be forced out of business. This will cut output of the goods concerned but will also free labor and materials and thus check the tendency for these cost prices to rise. Or finally, rather than sacrifice quality or output, the authorities may decide to grant relief through either some form of subsidy or an increase in the price ceiling.

Such price advances as do occur, however, will unquestionably be at a slower rate. How fast and how much the rise is, will depend largely upon the energy with which the remainder of the President's program is put into effect. If the rise is to be a minimum, the necessary measures must be adopted to remove surplus purchasing power and to stabilize prices of goods and services not now subject to the March ceilings. The battle against inflation is essentially a battle with many fronts. Hence it can be lost by a break through on some unguarded front.